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Proposed Amendment to GLWA Contract CS-195 effective July 1, 2019 with The Foster Group for Annual Financial Management Consulting at a not-to-exceed amount of \$1,000,000 for a two-year contract and, in addition, System Consultant Services – Related to Specific Bond Transactions Services on a per transaction fee basis at a not-to-exceed amount of \$610,000 for the same two-year time period

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Agenda of: June 12, 2019

Item No.: **2019-TBD**

Amount: N/A

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue F. McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: June 12, 2019

RE: **Proposed Amendment to GLWA Contract CS-195 effective July 1, 2019 with The Foster Group for Annual Financial Management Consulting at a not-to-exceed amount of \$1,000,000 for a two-year contract and, in addition, System Consultant Services – Related to Specific Bond Transactions Services on a per transaction fee basis at a not-to-exceed amount of \$610,000 for the same two-year time period.**

MOTION

Upon recommendation of Nicolette Bateson, Chief Financial Officer/Treasurer, the Great Lakes Water Authority Board authorizes the Chief Executive Officer (CEO) to **enter into Contract No. CS-195 effective July 1, 2019 with The Foster Group for Annual Financial Management Consulting at a not-to-exceed amount of \$1,000,000 for a two-year contract and, in addition, System Consultant Services – Related to**

Specific Bond Transactions Services on a per transaction fee basis at a not-to-exceed amount of \$610,000 for the same two-year time period, and also authorizes the CEO to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

The current fixed fee, fixed cost contract with The Foster Group expires June 30, 2019. The Foster Group provides critical customer outreach, highly technical financial analysis, charge methodology services, management assistance, and long-term strategic support to the Great Lakes Water Authority (GLWA). In addition to core tasks, there are several open GLWA initiatives that depend on The Foster Group's services which includes the following.

- ✓ Current review of sewer charges methodology in process
- ✓ Current review of shares through the member partner outreach in process
- ✓ Financial analysis of the sewer master plan in the latter half of CY 2019
- ✓ Complex coordination on behalf of the Chief Financial Officers for Detroit Water and Sewerage Department (DWSD) and GLWA on a regular basis related to coordination of budget, capital, and financing needs.
- ✓ Ongoing expertise to support the GLWA and the DWSD in analyzing and implementing the leases and services agreement
- ✓ Knowledge transfer in the customer outreach program facilitation,
- ✓ Knowledge transfer and participation in the finance transformation including the launch of Tagetik in the latter half of CY 2019 for financial modeling and strategic planning,
- ✓ Supporting the Chief Financial Officer is the development of GLWA team member expertise to build in-house capacity.

In addition, the GLWA is preparing to launch (and hopefully complete) a comprehensive review of the water charges methodology during this proposed contract period. Early member partner leadership feedback has indicated that there would be a preference for The Foster Group to be engaged in that effort.

This proposed procurement is considered a specialized procurement as defined by the GLWA Procurement Policy as *"a procurement in which there may be multiple sources of supply, but one Vendor possesses the unique ability or capability to meet the particular requirements of the Solicitation and/or where a unique expertise is provided by a Vendor that is unattainable in the market in a competitive environment"*.

JUSTIFICATION

The GLWA Board is being asked to consider a renewal of The Foster Group contract at this time to carry forward these critical tasks without disruption. For that reason, The Foster Group has been asked to provide a detailed proposal (attached) for the next two years. The proposal expands further on many of the key initiatives noted above.

The proposed fee is a fixed annual fee paid on a pro-rata monthly lump sum basis which includes all expenses. In GLWA's form of contract, either party can initiate the discussion to modify to the scope of services and related fees.

As a benchmark of the fee proposed, the following analysis was prepared using the hourly rates obtained during the Request for Information for a third-party consultant to support individual and collective member partner questions for the sewer charges methodology review. The resulting contract was not to exceed \$120,000 based on negotiated hourly rates plus \$20,000 expenses with most of the work being completed between May and August. The evaluation panel (which included representatives from DWSD, Oakland, and Macomb service areas) selected Firm D. GLWA team members conducted negotiations.

Firm	A	B	C	D	D Negotiated	Average
Director Level	\$ 350.00	\$ 300.00	\$ 290.00	\$ 425.00	\$ 350.00	\$ 343.00
Manager Level	\$ 275.00	\$ 280.00	\$ 290.00	\$ 291.00	\$ 250.00	\$ 277.20

Based on the table above, if the lowest, average, and highest hourly fee was applied using an estimated annual number of hours (recognizing that there the number of hours is especially intensive during certain times of the year), a benchmarked annual fee *before expenses* would range from \$452,400 to \$663,000.

Firm	3/4 FTE (hours)	Fee based on 3/4 FTE @ lowest rate	Fee based on 3/4 FTE @ average rate	Fee based on 3/4 FTE @ highest rate
Director Level	1,560	\$ 452,400	\$ 535,080	\$ 663,000
Manager Level	1,560	\$ 452,400	\$ 432,432	\$ 453,960

Given the current market rate, staff has determined that the fee proposed for financial management consulting services is reasonable.

The proposed contract with The Foster Group also provides for revenue bond (including State Revolving Fund) transaction services if needed. The fees are at the same level as prior years.

BUDGET IMPACT

The Foster Group Contract is divided equally between the Financial Planning & Analysis Group and the Public Finance Group in the Financial Services Area. There will be an allocation required from the Administrative Budget Reserve to allow for the discrepancy between early budget estimates and the proposed fee.

Line Item Budget	Current FY 2019 Services	Approved FY 2020 Services	Proposed FY 2021 Services
FP&A Contractual Professional Services			
5910-884113.000-617903-WS7900	\$ 250,000	\$ 200,000	\$ 200,000
Public Finance Consulting Services			
5910-884141.000-617903-WS7900	250,000	210,000	210,000
Budget Amendment Required		90,000	90,000
Budget Total	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

Fees for bond transactions are charged to the bond issuance costs consistent with industry practice for all advisor fees that are transaction based.

COMMITTEE REVIEW

The Audit Committee is reviewing this matter at its meeting on May 17, 2019.

SHARED SERVICES IMPACT

The extent to which DWSD will utilize The Foster Group's services is undetermined. If required by the SRF program for a transaction, the fees would be a pass-through cost based on the attached proposal and at the same rate as prior years. DWSD also pays a pro rata share of fees for revenue bonds on their behalf. This is also a pass-through cost.